

**REPORT OF THE AUDIT OF THE  
GALLATIN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kenny French, Gallatin County Judge/Executive

Members of the Gallatin County Fiscal Court

The enclosed report prepared by Cotton and Allen, P.S.C., Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Cotton and Allen, P.S.C. to perform the audit of these financial statements. We worked closely with the firm during our report review process; Cotton and Allen, P.S.C. evaluated the Gallatin County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
GALLATIN COUNTY FISCAL COURT**

**June 30, 2009**

Cotton and Allen, P.S.C. has completed the audit of the Gallatin County Fiscal Court for fiscal year ended June 30, 2009. They have issued unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky.

**Financial Condition:**

The Fiscal Court had net assets of \$6,279,418 as of June 30, 2009. The Fiscal Court had unrestricted net assets of \$2,322,023 in its governmental activities as of June 30, 2009. The Fiscal Court had total debt principal as of June 30, 2009 of \$4,572,448 with \$177,701 due within the next year.

**Report Comments:**

- |         |   |
|---------|---|
| 2009-01 | The County Should Review Its IT Systems And Ensure That Appropriate Safeguards Are In Place To Ensure The Continued Security Of The Fiscal Court's Data |
| 2009-02 | The County Should Properly Account For Encumbrances   |

**Deposits:**

The Fiscal Court deposits were insured and collateralized by bank securities.



<u>CONTENT</u>	PAGE
INDEPENDENT AUDITOR'S REPORT .....	1
GALLATIN COUNTY OFFICIALS.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	13
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	15
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	17
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	20
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES .....	44
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	48
COMBINING BALANCE SHEET - NON MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	50
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	53
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	56
COMMENTS AND RECOMMENDATIONS.....	59
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	







To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Kenny French, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Gallatin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Gallatin County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of June 30, 2009, and the respective changes in financial position - modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 11 and 44 through 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Kenny French, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gallatin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements on page 50 through 54, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2010 on our consideration of Gallatin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01     The County Should Review Its IT Systems And Ensure That Appropriate Safeguards Are In Place To Ensure The Continued Security Of The Fiscal Court's Data
- 2009-02     The County Should Properly Account For Encumbrances

Respectfully submitted,



Cotton and Allen, P.S.C.  
Certified Public Accountants and Advisors

February 19, 2010

GALLATIN COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

Kenny French	County Judge/Executive
Dudley Gullion	Magistrate
Joel Shinkle	Magistrate
Jeff Wallace	Magistrate
Eric Moore	Magistrate

**Other Elected Officials:**

John G. Wright	County Attorney
Jerry Webb	Jailer
Tracy Miles	County Clerk
Nelson Brown	Sheriff
Ruth Middleton	Property Valuation Administrator
Jack Hughes	Coroner

**Appointed Personnel:**

Denny French	Deputy Judge/Executive
Denny French	Planning & Zoning Administrator
Lesa Bullard	County Treasurer
Lesa Bullard	Occupational Tax Administrator
Elaine Lillard	Finance Officer
Elaine Lillard	Personnel/Payroll Officer
Mike Satchwell	Road Supervisor
Chris Curtis	911 Administrator
Sherri Campbell Papke	Dog Warden

# Gallatin County Fiscal Court

*Magistrates*  
Eric Moore  
Tom Ellis  
Joel Shinkle  
Dudley Gullion

P.O. Box 144  
Warsaw, Kentucky 41095  
859-567-5691

Kenny French  
*Judge/Executive*  
John G. Wright  
*County Attorney*

## **Gallatin County Management's Discussion and Analysis June 30, 2009**

The financial management of Gallatin County, Kentucky offers readers of Gallatin County's financial statements this narrative overview and analysis of the financial activities of Gallatin County for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

### **Financial Highlights**

- Gallatin County had total net assets of \$6,279,418 as of June 30, 2009. The Fiscal Court had unrestricted net assets of \$2,322,023 in its governmental activities as of June 30, 2009. Total debt principal as of June 30, 2009 was \$4,572,448 with \$177,701 due within one year.
- The government's total net assets increased by \$760,012 from the prior year. This increase is primarily due to Occupational Tax and Business License Fees as well as real property taxes.
- At the close of the current fiscal year, Gallatin County's Balance Sheet – Governmental Funds – Modified Cash Basis reported total fund balances of \$2,372,093. Of this amount, \$2,269,231 is available for spending at the government's discretion (unreserved fund balance).
- Gallatin County's total indebtedness at the close of fiscal year June 30, 2009 was \$4,572,448 of which \$4,394,747 is long-term debt (due after 1 year) and \$177,701 is short-term debt (to be paid within 1 year). There were no new debt additions during the fiscal year. Debt service payments reduced debt by \$270,805.

**Gallatin County  
Management's Discussion and Analysis  
June 30, 2009  
(Continued)**

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Gallatin County's basic financial statements. Gallatin County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Gallatin County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Gallatin County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Gallatin County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

The government-wide financial statements include only Gallatin County (known as the primary government).

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Gallatin County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Gallatin County are *governmental funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Gallatin County**  
**Management's Discussion and Analysis**  
**June 30, 2009**  
**(Continued)**

**Overview of the Financial Statements (Continued)**

**Governmental Funds (Continued)**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Gallatin County maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Local Government Economic Assistance (LGEA) Fund, Ambulance Fund, and Courthouse Renovations Fund, all of which are considered major funds by the County. The Jail Fund, State Grants Fund, 911 Fund, 911 Wireless Fund, Tourism Fund, and Economic Development Fund are considered non-major funds and are represented in a combined form.

Gallatin County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis.**

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of government's financial position.

**Net Assets Comparison - Governmental Activities**

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2008</b>	<b>2009</b>	<b>Variance</b>	<b>%</b>
<b>Assets</b>				
Current and Other Assets	\$ 2,620,351	\$ 2,372,093	\$ (248,258)	-9.47%
Capital Assets	7,742,308	8,479,773	737,465	9.53%
Total Assets	10,362,659	10,851,866	489,207	4.72%
<b>Liabilities</b>				
Current Liabilities	186,784	177,701	(9,083)	-4.86%
Long-term Liabilities	4,656,469	4,394,747	(261,722)	-5.62%
Total Liabilities	4,843,253	4,572,448	(270,805)	-5.59%
<b>Net Assets</b>				
Invested in Capital Assets,				
Net of Related Debt	2,899,055	3,907,325	1,008,270	34.78%
Restricted	227,918	50,070	(177,848)	-78.03%
Unrestricted	2,392,433	2,322,023	(70,410)	-2.94%
Total Net Assets	\$ 5,519,406	\$ 6,279,418	\$ 760,012	13.77%

**Gallatin County**  
**Management's Discussion and Analysis**  
**June 30, 2009**  
**(Continued)**

**Government-wide Financial Analysis. (Continued)**

**Statement of Activities Comparison - Governmental Activities**

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2008</b>	<b>2009</b>	<b>Variance</b>	<b>%</b>
<b>Revenues</b>				
General Revenues	\$ 2,267,057	\$ 2,120,205	\$ (146,852)	-6.48%
Charges for Services	862,717	726,110	(136,607)	-15.83%
Operating Grants and Contributions	1,533,741	1,886,304	352,563	22.99%
<b>Total Revenues</b>	<u>4,663,515</u>	<u>4,732,619</u>	<u>69,104</u>	<u>1.48%</u>
<b>Expenses</b>				
General Government	1,386,893	1,316,922	(69,971)	-5.05%
Protection to Persons & Property	1,227,402	1,237,213	9,811	0.80%
General Health and Sanitation	90,266	192,467	102,201	113.22%
Social Services	27,484	24,157	(3,327)	-12.11%
Recreation and Culture	115,159	147,087	31,928	27.73%
Roads	642,486	97,988	(544,498)	-84.75%
Debt Service	417,470	204,163	(213,307)	-51.10%
Capital Projects	152,242	752,610	600,368	394.35%
<b>Total Expenses</b>	<u>4,059,402</u>	<u>3,972,607</u>	<u>(86,795)</u>	<u>-2.14%</u>
Change In Net Assets	604,113	760,012	155,899	25.81%
Net Assets - Beginning	4,915,293	5,519,406	604,113	12.29%
Net Assets - Ending	<u>\$ 5,519,406</u>	<u>\$ 6,279,418</u>	<u>\$ 760,012</u>	<u>13.77%</u>

**Changes in Net Assets.**

*Governmental Activities.* Gallatin County's net assets increased by \$760,012 in fiscal year 2009. Key elements of this are as follows:

- Current assets and cash decreased \$248,258.
- Investment in capital assets net of related debt increased by \$1,008,270.
- Current and long-term liabilities decreased by \$270,805.
- Revenues were \$4,732,619 as reflected in the Statement of Activities.
- Expenditures totaled \$3,972,607 as reflected in the Statement of Activities.

**Gallatin County  
Management's Discussion and Analysis  
June 30, 2009  
(Continued)**

**Financial Analysis of the County's Funds**

As noted earlier, Gallatin County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds Overview.* The focus of Gallatin County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2009 fiscal year, the combined ending fund balance of Gallatin County's governmental funds was \$2,372,093. Approximately 96% (\$2,269,231) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of the fund balance (\$102,862) is reserved to indicate that it is not available for new spending because it is committed.

The County has 5 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) LGEA Fund; 4) Ambulance Fund; 5) Courthouse Renovations Fund. There are 6 non-major funds. They are the Jail Fund, State Grants Fund, Economic Development Fund, 911 Fund, 911 Wireless Fund, and the Tourism Fund.

1. The General Fund is the chief operating fund of Gallatin County. At the end of the June 30, 2009 fiscal year, unreserved fund balance of the General Fund was \$864,213, while total fund balance was \$915,518. The County received \$443,395 in real property tax revenues. This accounts for approximately 19% of the general fund revenue. \$1,035,630 was received from other taxes, which include motor vehicle tax, delinquent tax, deed transfer tax, payroll tax, franchise tax and in lieu of tax payments and accounts for approximately 45% of the county's general fund revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$828,057 unreserved fund balance at June 30, 2009. The unreserved fund balance at the end of the previous year was \$1,081,004. The fiscal year 2009 expenditures included road slips, bridge replacement, and road paving.
3. The Local Government Economic Assistance Fund had a fund balance of \$106,130, an increase of \$59 over the previous fiscal year end.
4. The Ambulance Fund is used to provide EMS services to the residents of Gallatin County. The Ambulance Fund had an unreserved fund balance of \$87,025 as of June 30, 2009. Repairs increased due to an older fleet of EMS vehicles.
5. The Courthouse Renovations Fund was added in the fiscal year ended June 30, 2006 to account for the activities of the Gallatin County, Kentucky Public Properties, a blended component unit of the County. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the renovation and financing of the County's courthouse. The Courthouse Renovations Fund had a fund balance of \$50,070 at June 30, 2009.



**Gallatin County  
Management's Discussion and Analysis  
June 30, 2009  
(Continued)**

**Financial Analysis of the County's Funds (Continued)**

6. The Jail Fund is primarily funded by transfers from the General Fund. The Jail Fund had a fund balance at June 30, 2009 of \$17,227. The Jail mainly transports prisoners and houses them at the Carroll County Detention Center, at the cost of \$124,204 for the year ended June 30, 2009. This is a decrease over the prior year by \$87,535. The General Fund contributed \$135,135 to the Jail operations.
7. The State Grants Fund was opened on March 12, 2009 as a pass through Grant Fund to account for tracking grant monies coming into Gallatin County. We began this new fund with the Health Department receiving a grant to build a new Health Department. We now are receiving monies from Kentucky Finance for Scenic View Sewer Grant as a pass through to the Gallatin County Sewer Board.
8. The Economic Development Fund was added in February 2006. The fund balance was \$222,262 as of June 30, 2009, which is an increase of \$4,012 from interest income received. No activity other than interest earned occurred in this fund.
9. The 911 Fund had a fund balance of \$14,723 as of June 30, 2009. This fund is supported by the General Fund and the 911 Wireless Fund. It is not self-sufficient.
10. The 911 Wireless Fund had a fund balance of \$74,621 as of June 30, 2009, which is an increase of \$1,017 from the prior year. It is supported primarily from revenues from CMRS for wireless calls. The 911 Wireless Fund helps fund the 911 Fund and pays for various maintenance contracts and equipment.
11. The Tourism Fund had a fund balance of \$55,338 as of June 30, 2009, which is a decrease of \$1,825 from the prior year.

**General Budgetary Highlights**

The County's original budget was amended during the fiscal year increasing the operating budget to \$6,529,646. Budget amendments were made to all areas due to excess revenue and grants.

Actual operating revenues were \$305,109 more than the amount originally budgeted by Fiscal Court. This increase was primarily from excess revenue and grants, and from the Occupational Tax and Business License Fee ordinances in place.

Actual operating expenditures were \$1,892,728 less than originally budgeted by Fiscal Court.

**Gallatin County**  
**Management's Discussion and Analysis**  
**June 30, 2009**  
**(Continued)**

**Capital Assets and Debt Administration**

*Capital Assets.* Gallatin County's investment in capital assets for its governmental type activities as of June 30, 2009, amounts to \$8,479,773 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, machinery and equipment, vehicles and current year infrastructure additions.

Additional information on the County's capital assets can be found in Note 3 of this report.

**Capital Assets, Net of Accumulated Depreciation - Governmental Activities**

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2008</b>	<b>2009</b>	<b>Variance</b>	<b>%</b>
<b>Assets</b>				
Infrastructure Assets	\$ 1,584,106	\$ 2,202,727	\$ 618,621	39.05%
Land and Land Improvements	1,315,000	1,315,000		0.00%
Buildings	479,326	468,165	(11,161)	-2.33%
Vehicles	956,581	879,848	(76,733)	-8.02%
Equipment	322,902	349,954	27,052	8.38%
Construction In Progress	3,084,393	3,264,079	179,686	5.83%
Total Net Capital Assets	<u>\$ 7,742,308</u>	<u>\$ 8,479,773</u>	<u>\$ 737,465</u>	9.53%

*Long-Term Debt.* At the end of the 2009 fiscal year, Gallatin County had total long-term debt outstanding of \$4,572,448. The amount of this debt due within the next year is \$177,701 and \$4,394,747 is due in subsequent years. This debt is for road improvements, fire trucks, AOC construction debt, and park land purchase

Additional information on the County's long-term debt can be found in Note 4 of this report.

**Other Matters.** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2009 fiscal year budget:

- The 2009 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.

**Gallatin County  
Management's Discussion and Analysis  
June 30, 2009  
(Continued)**

**Other Matters (Continued)**

- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

**Requests For Information**

This financial report is designed to provide a general overview of Gallatin County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Gallatin County Treasurer, PO Box 144 (200 Washington Street), Warsaw, KY 41095.

THIS PAGE LEFT BLANK INTENTIONALLY

**GALLATIN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**GALLATIN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>Primary Government</b>
	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 2,372,093
Total Current Assets	<u>2,372,093</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	3,264,079
Land and Land Improvements	1,315,000
Buildings	468,165
Equipment	349,954
Vehicles	879,848
Infrastructure	<u>2,202,727</u>
Total Noncurrent Assets	<u>8,479,773</u>
Total Assets	<u>10,851,866</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	<u>177,701</u>
Total Current Liabilities	<u>177,701</u>
Noncurrent Liabilities:	
Financing Obligations	<u>4,394,747</u>
Total Noncurrent Liabilities	<u>4,394,747</u>
Total Liabilities	<u>4,572,448</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	3,907,325
Restricted For:	
Capital Projects	50,070
Unrestricted	<u>2,322,023</u>
Total Net Assets	<u>\$ 6,279,418</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**GALLATIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**



**GALLATIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		<b>Net (Expenses) Revenues and Changes In Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Primary Government</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,316,922	\$ 75,160	\$ 405,442	\$ (836,320)
Protection to Persons and Property	1,237,213	635,789	132,598	(468,826)
General Health and Sanitation	192,467	13,640	122,324	(56,503)
Social Services	24,157			(24,157)
Recreation and Culture	147,087			(147,087)
Roads	97,988	1,521	1,225,940	1,129,473
Debt Service	204,163			(204,163)
Capital Projects	752,610			(752,610)
Total Governmental Activities	<u>3,972,607</u>	<u>726,110</u>	<u>1,886,304</u>	<u>(1,360,193)</u>
<b>General Revenues:</b>				
Taxes:				
Real Property Taxes				443,395
Personal Property Taxes				46,893
Motor Vehicle Taxes				124,017
Occupational Taxes				712,896
Other Taxes				341,298
Excess Fees				141,420
Miscellaneous Revenues				268,170
Interest				42,116
Total General Revenues				<u>2,120,205</u>
Change in Net Assets				760,012
Net Assets - Beginning				<u>5,519,406</u>
Net Assets - Ending				<u>\$ 6,279,418</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**GALLATIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

**GALLATIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u><b>General Fund</b></u>	<u><b>Road Fund</b></u>	<u><b>LGEA Fund</b></u>	<u><b>Ambulance Fund</b></u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 915,518	\$ 828,315	\$ 106,130	\$ 87,854
Total Assets	<u>915,518</u>	<u>828,315</u>	<u>106,130</u>	<u>87,854</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	51,305	258	220	829
Capital Projects Fund				
Unreserved:				
General Fund	864,213			
Special Revenue Funds		828,057	105,910	87,025
Total Fund Balances	<u>\$ 915,518</u>	<u>\$ 828,315</u>	<u>\$ 106,130</u>	<u>\$ 87,854</u>

The accompanying notes are an integral part of the financial statements.

**GALLATIN COUNTY**  
**BALANCE SHEET - GOVERNMENT FUNDS - MODIFIED CASH BASIS**  
**June 30, 2009**  
**(Continued)**

<b>Courthouse Renovations Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 50,070	\$ 384,206	\$ 2,372,093
50,070	384,206	2,372,093
	180	52,792
50,070		50,070
		864,213
	384,026	1,405,018
\$ 50,070	\$ 384,206	\$ 2,372,093

**Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 2,372,093
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	10,280,390
Accumulated Depreciation	(1,800,617)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(4,572,448)
Net Assets Of Governmental Activities	\$ 6,279,418

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**GALLATIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**GALLATIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<u><b>General Fund</b></u>	<u><b>Road Fund</b></u>	<u><b>LGEA Fund</b></u>	<u><b>Ambulance Fund</b></u>
<b>REVENUES</b>				
Taxes	\$ 1,360,273	\$	\$	\$
In Lieu Of Taxes	118,752			
Excess Fees	141,420			
Licenses And Permits	71,975			
Intergovernmental	427,759	1,034,283	191,656	10,169
Charges For Services	13,640	1,521		635,789
Miscellaneous	143,763	89,624	31,521	322
Interest	10,866	23,481	599	244
Total Revenues	<u>2,288,448</u>	<u>1,148,909</u>	<u>223,776</u>	<u>646,524</u>
<b>EXPENDITURES</b>				
General Government	781,343			
Protection to Persons and Property	188,562			584,458
General Health And Sanitation	68,821			
Social Services	23,713			
Recreation and Culture	14,000		163,202	
Roads		617,842		
Debt Service	351,428	70,720	52,820	
Capital Projects	42,427	530,497		
Administration	584,614	42,820	7,695	63,755
Total Expenditures	<u>2,054,908</u>	<u>1,261,879</u>	<u>223,717</u>	<u>648,213</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>233,540</u>	<u>(112,970)</u>	<u>59</u>	<u>(1,689)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	156,349	10,000		
Transfers to Other Funds	(210,135)	(156,349)		
Total Other Financing Sources (Uses)	<u>(53,786)</u>	<u>(146,349)</u>		
Net Change in Fund Balances	179,754	(259,319)	59	(1,689)
Fund Balances - Beginning	735,764	1,087,634	106,071	89,543
Fund Balances - Ending	<u>\$ 915,518</u>	<u>\$ 828,315</u>	<u>\$ 106,130</u>	<u>\$ 87,854</u>

The accompanying notes are an integral part of the financial statements.

**GALLATIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Courthouse Renovations Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 98,835	\$ 1,459,108
		118,752
		141,420
		71,975
	316,259	1,980,126
		650,950
	2,941	268,171
2,243	4,684	42,117
2,243	422,719	4,732,619
		781,343
	414,168	1,187,188
	122,289	191,110
		23,713
	36,287	213,489
		617,842
		474,968
179,686		752,610
405	39,325	738,614
180,091	612,069	4,980,877
(177,848)	(189,350)	(248,258)
	269,635	435,984
	(69,500)	(435,984)
	200,135	
(177,848)	10,785	(248,258)
227,918	373,421	2,620,351
\$ 50,070	\$ 384,206	\$ 2,372,093

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**GALLATIN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**GALLATIN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (248,258)
<p>Amounts Reported for Governmental Activities in the Statement of Activities            Are Different Because Governmental Funds Report Capital Outlays as Expenditures.            However, in the Statement of Activities the Cost of those Assets Are Allocated            Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	1,063,549
Depreciation Expense	(326,084)
<p>The Issuance of Long-term Debt Provides Current Financial Resources to            Governmental Funds While Principal Payments on Long-term Debt Are Expensed            in the Governmental Funds as a Use of Current Financial Resources. These            Transactions, However, Have No Effect on Net Assets.</p>	
Financing Obligations Principal Payments	<u>270,805</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 760,012</u></u>

The accompanying notes are an integral part of the financial statements.

**Index For Notes  
To The Financial Statements**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2. DEPOSITS.....	30
NOTE 3. CAPITAL ASSETS .....	31
NOTE 4. LONG-TERM DEBT .....	32
NOTE 5. INTEREST ON LONG-TERM DEBT .....	41
NOTE 6. EMPLOYEE RETIREMENT SYSTEM.....	41
NOTE 7. INSURANCE.....	42



**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and other accruals, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Gallatin County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the Fiscal Court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the County's primary government using the blending method.

Gallatin County Public Properties Corporation

The Gallatin County, Kentucky Public Properties Corporation (Corporation) cannot be sued in its own name without recourse to the Gallatin County Fiscal Court, which appoints a voting majority consisting of Fiscal Court members and the County Attorney. The Fiscal Court is able to impose its will on the Corporation, as the Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the renovation and financing of the County's courthouse. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

Gallatin County Public Properties Corporation (Continued)

This component unit is blended within Gallatin County's financial statements as the Courthouse Renovations Fund.

**C. Gallatin County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Gallatin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Gallatin County, Kentucky.

Additional – Gallatin County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and modified cash basis of accounting and report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Gallatin County does not have any business-type activities.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary funds or fiduciary funds.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

**Local Government Economic Assistance (LGEA) Fund** – The primary purpose of this fund is to account for coal and mineral revenues. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

**Ambulance Fund** - This fund accounts for ambulance services provided to the residents of Gallatin County. The primary source of revenue comes from ambulance services.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Courthouse Renovations Fund - The primary purpose of this fund is to track the construction costs of the County's courthouse renovation project. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, State Grants Fund, Economic Development Fund, 911 Fund, 911 Wireless Fund, and Tourism Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Special Revenue Funds:

The Road Fund, Jail Fund, LGEA Fund, Ambulance Fund, State Grants Fund, Economic Development Fund, 911 Fund, 911 Wireless Fund, and Tourism Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Courthouse Renovations Fund is presented as a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, equipment, vehicles, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Equipment	5,000	3-25
Vehicles	5,000	5-15
Infrastructure	20,000	2-40

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations is reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Courthouse Renovations Fund as the Department for Local Government does not require the Fiscal Court to report or budget this fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, there are no related organizations for Gallatin County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Tri-County Kentucky Airport Board is considered a joint venture of the Gallatin County Fiscal Court.

**Note 2. Deposits**

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation ("FDIC") as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 is as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,315,000	\$	\$	\$ 1,315,000
Construction In Progress	3,084,393	179,686		3,264,079
Total Capital Assets Not Being Depreciated	4,399,393	179,686		4,579,079
Capital Assets, Being Depreciated:				
Buildings	736,000			736,000
Vehicles	1,352,060	20,078		1,372,138
Equipment	578,264	74,395		652,659
Infrastructure	2,151,124	789,390		2,940,514
Total Capital Assets Being Depreciated	4,817,448	883,863		5,701,311
Less Accumulated Depreciation For:				
Buildings	(256,674)	(11,161)		(267,835)
Vehicles	(398,167)	(94,123)		(492,290)
Equipment	(255,362)	(47,343)		(302,705)
Infrastructure	(564,330)	(173,457)		(737,787)
Total Accumulated Depreciation	(1,474,533)	(326,084)		(1,800,617)
Total Capital Assets, Being Depreciated, Net	3,342,915	557,779		3,900,694
Governmental Activities Capital Assets, Net	\$ 7,742,308	\$ 737,465	\$ 0	\$ 8,479,773

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 13,251
Protection to Persons and Property	92,776
General Health and Sanitation	1,357
Recreation and Culture	5,310
Social Services	444
Roads	212,946
Total Depreciation Expense - Governmental Activities	<u>\$ 326,084</u>

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Mars Road**

On May 27, 2004, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$370,000 at a variable interest rate (4.192% at June 30, 2009) in order to finance the improvements of Mars Road so that it may be a part of the county road system. Payments of this debt are to be made by the property owners located on Mars Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on July 20, 2029.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,000	\$ 11,498
2011	10,000	11,560
2012	10,000	11,165
2013	10,000	10,753
2014	10,000	10,346
2015-2019	70,000	43,664
2020-2024	75,000	28,440
2025-2029	105,912	9,903
Totals	<u>\$ 300,912</u>	<u>\$ 137,329</u>

**B. Sugar Bay Road**

On May 27, 2004, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$160,000 at a variable interest rate (4.19% at June 30, 2009) in order to finance the improvements of Sugar Bay Road so that it may be a part of the county road system. Payments of this debt are to be made by the property owners located on Sugar Bay Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on July 20, 2029.

Principal payment requirements and schedule interest for the term of the agreement are as follows:



**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Sugar Bay Road (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 5,000	\$ 4,102
2011	5,000	3,922
2012	5,000	3,729
2013	5,000	3,521
2014	5,000	3,317
2015-2019	25,000	13,535
2020-2024	25,000	8,458
2025-2028	32,098	3,941
Totals	<u>\$ 107,098</u>	<u>\$ 44,525</u>

**C. Land - County Park and Fairgrounds**

On September 15, 2005, Gallatin County entered into a twenty-year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$820,000 at a variable interest rate (4.311% at June 30, 2009) in order to finance the acquisition of 155 acres of land for a county park and fairgrounds. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on January 20, 2026.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 25,000	\$ 27,900
2011	25,000	28,027
2012	30,000	26,951
2013	30,000	25,721
2014	35,000	24,418
2015-2019	195,000	97,803
2020-2024	260,000	54,228
2025-2026	115,157	5,443
Totals	<u>\$ 715,157</u>	<u>\$ 290,491</u>

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Courthouse Renovations**

On June 30, 2006, Gallatin County entered into a twenty-one year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$2,498,784 in order to finance the renovations of the Gallatin County Courthouse. The Courthouse will be subleased to the Administrative Office of the Courts (AOC) of the Commonwealth of Kentucky for use as court facilities. Under the sublease agreement, the financing obligation payments of the County are to be paid directly to the Trustee by AOC and the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project. Interest is paid on a monthly basis and principal payments are paid on a semi-annual basis until termination of the lease on November 20, 2026. The rate in the lease was fixed at 4.49% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended	Governmental Activities	
	Principal	Interest
June 30		
2010	\$ 81,242	\$ 117,758
2011	85,706	113,294
2012	89,875	109,125
2013	94,789	104,211
2014	99,788	99,212
2015-2019	583,794	411,206
2020-2024	754,643	240,357
2025-2027	558,659	38,341
Totals	<u>\$ 2,348,496</u>	<u>\$ 1,233,504</u>

On June 28, 2007, Gallatin County entered into a twenty year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$375,808 in order to further finance the renovations of the Gallatin County Courthouse. As above, the Courthouse will be subleased to the Administrative Office of the Courts (AOC) of the Commonwealth of Kentucky for use as court facilities. Under the sublease agreement, the financing obligation payments of the County are to be paid directly to the Trustee by AOC and the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project. Interest is paid on a monthly basis and principal payments are paid on a semi-annual basis until termination of the lease on May 20, 2027. The rate in the lease was fixed at 5.157% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Courthouse Renovations (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 12,335	\$ 17,515
2011	12,976	16,875
2012	13,643	16,207
2013	14,352	15,498
2014	15,095	14,755
2015-2019	88,041	61,209
2020-2024	113,316	35,934
2025-2027	83,174	6,375
Totals	<u>\$ 352,932</u>	<u>184,368</u>

On July 10, 2001, the Fiscal Court entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require the Fiscal Court to make any rental payments toward the project; however, the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project.

The lease is secured by a security interest in any and all right, title and interest of the County in the Courthouse that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and any proceeds there from.

**E. Roads - Carver Farms Subdivision**

On December 22, 2005, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$79,000 at a variable interest rate (4.564% at June 30, 2009) in order to finance the construction of roads in the Carver Farms Subdivision so that they may be a part of the county road system. Payments of this debt are to be made by the property owners located in the Carver Farms Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2030.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. Roads - Carver Farms Subdivision (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 1,709	\$ 2,946
2011	1,773	2,988
2012	1,885	2,916
2013	2,004	2,836
2014	2,131	2,752
2015-2019	12,849	12,308
2020-2024	17,449	9,263
2025-2029	23,694	5,126
2030-2031	7,146	472
Totals	<u>\$ 70,640</u>	<u>\$ 41,607</u>

**F. Roads - Creekside Subdivision**

On December 22, 2005, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$157,000 at a variable interest rate (4.494% at June 30, 2009) in order to finance the construction of roads in the Creekside Subdivision so that they may be a part of the county road system. Payments of this debt are to be made by the property owners located in the Creekside Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2030.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 2,899	\$ 4,307
2011	3,014	4,356
2012	3,204	4,234
2013	3,406	4,098
2014	3,621	3,956
2015-2019	21,837	17,308
2020-2024	29,653	12,134
2025-2029	37,949	5,050
Totals	<u>\$ 105,583</u>	<u>\$ 55,443</u>

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**G. Fire Truck #1**

On May 2, 2007, Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of assuming a loan acquired by the Gallatin County Fire Department in March 21, 2001 for a fire truck. The original principal amount was \$136,161. The termination date of the agreement is March 21, 2021. The interest rate for the loan is fixed at 5.0%.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 7,628	\$ 6,071
2011	8,010	5,689
2012	8,410	5,289
2013	8,831	4,868
2014	9,272	4,427
2015-2019	53,796	14,699
2020-2021	25,238	2,160
Totals	<u>\$ 121,185</u>	<u>\$ 43,203</u>

**H. Fire Truck #2**

On May 2, 2007, Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of assuming a loan acquired by the Gallatin County Fire Department in March 21, 2001 for a fire truck. The original principal amount was for \$239,263. The termination date of the agreement is March 21, 2021. The interest rate for the loan is fixed at 4.75%.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 13,557	\$ 10,103
2011	14,201	9,459
2012	14,876	8,784
2013	15,582	8,078
2014	16,322	7,338
2015-2019	94,006	24,294
2020-2021	44,131	3,189
Totals	<u>\$ 212,675</u>	<u>\$ 71,245</u>

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**I. Scenic View Road**

On September 4, 2007, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$138,283 at a variable rate of interest (4.318% at June 30, 2009) in order to finance the construction of roads in Scenic View subdivision so that they may be part of the County road system. Payments of this debt are to be made by the property owners located in the Scenic View Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on September 20, 2032.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 2,742	\$ 5,387
2011	2,837	5,487
2012	3,016	5,374
2013	3,206	5,245
2014	3,408	5,111
2015-2019	20,553	23,229
2020-2024	27,910	18,360
2025-2029	37,900	11,742
2030-2033	31,636	2,795
Totals	<u>\$ 133,208</u>	<u>\$ 82,730</u>

**J. City Building**

On July 13, 2007, Gallatin County Fiscal Court entered into a five-year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$200,000 at a variable interest rate in order to purchase the city building to be used for Ambulance Services. Principal and interest are paid on a monthly basis until termination of the lease on January 20, 2012. The principal balance was paid in full during the year ended June 30, 2009.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**K. Glencoe Fire Truck**

On April 30, 2008, Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of securing a loan to purchase a fire truck for the city of Glencoe. The original principal amount was \$120,250. The loan is for seven years with payments of \$20,314 for principal and interest due on April 30 of each year through April 30, 2015. The interest rate for the loan is fixed at 4.375%.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 15,589	\$ 5,005
2011	16,329	4,265
2012	17,105	3,489
2013	17,917	2,677
2014	18,768	1,826
2015	18,855	1,739
Totals	<u>\$ 104,563</u>	<u>\$ 19,001</u>

**L. Interest Rate Swaps**

Certain of the Fiscal Court's leases have been fixed through the use of interest rate swaps. The interest rate swaps are exchange agreements between the trustee and a third party financial institution, whereby the third party financial institution pays the trustee the variable rate interest within the swap (which is equivalent to the variable rate within the lease) and the Fiscal Court pays the fixed rate stated by the swap. Under the terms of lease agreements the trustee has the right to charge costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

The swap becomes effective on the date that the County exercises its option to convert the variable interest rate in the lease to a fixed rate. The notional amount of the swap at that exercise date is equivalent to the then outstanding principal balance. The notional amount reduces over the term of the lease by the same amount as the principal payments on the lease, as they fall due. The swap terminates on the same date as the final principal payment is due on the respective lease.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**L. Interest Rate Swaps (Continued)**

The interest rate swaps in effect as of June 30, 2009 are as follows:

	Date Effective	Termination Date	Notional Amount at June 30, 2009	Settlement Amount at June 30, 2009
Courthouse Renovations - A	June 30, 2006	December 1, 2026	\$ 2,348,496	\$ 161,495
Courthouse Renovations - B	June 28, 2007	June 1, 2027	352,933	17,806

The settlement values above are calculated using the zero-coupon rate and are considered by the Fiscal Court to represent the fair value of the interest rate swaps at June 30, 2009. The variable rate on all of the swaps is the USD-BMA Municipal Swap Index.

The swaps expose the Fiscal Court to the following risks that could give rise to additional rentals:

*Credit risk:* Credit risk is the risk that the third party financial institution will not fulfill its obligations to pay the variable rate interest. All third party financial institutions party to the interest rate swaps have S&P credit quality ratings of AA-. The value of the transaction to the Fiscal Court depends upon the third party financial institutions maintaining their perceived creditworthiness in the municipal marketplace and fulfilling their obligations under the interest rate swap agreements. Should the third party financial institutions fail to fulfill their obligations the Fiscal Court will be required to pay additional rentals for any costs associated with terminating the swap agreement, plus the costs of entering into an interest rate swap agreement with an alternative financial institutions. Should an alternative agreement not be available, the Fiscal Court would be required to make payments at the variable interest rate contained within the lease.

*Basis risk:* Basis risk is a term used to refer to a mismatch in the source of the variable interest rates in the lease agreement and the swap agreement. When an agency uses an interest rate swap agreement in conjunction with a variable rate debt instrument, the variable rate index used to calculate the payments due under the swap agreement (in this case, the USD-BMA Municipal Swap Index) may not match the rate at which the variable rate debt is remarketed (the interest rate on KACoLT's variable rate bonds, which is reset on a daily basis). This mismatch could potentially be magnified if KACoLT were to administer the program in such a way that the underlying bonds were determined to be taxable obligations, which would be considered an event of default according to the terms of the letter of credit agreement.

*Termination risk:* Termination risk is the risk that a derivative's unscheduled end will affect the Fiscal Court's asset/liability strategy or will present the Fiscal Court with potentially significant unscheduled termination payments to the trustee. For example, the Fiscal Court relies on the interest rate swaps to insulate it from the possibility of increasing interest rate payments. If the swap has an unscheduled termination, that benefit would not be available. The Fiscal Court would also be required to pay any costs associated with terminating the swap agreement.



**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**L. Interest Rate Swaps (Continued)**

*Market access risk:* Market-access risk is the risk that the Fiscal Court will not be able to enter credit markets or that credit will become more costly. If the Fiscal Court is required to pay additional rentals or be required to pay higher variable rates, the Fiscal Court's credit rating could suffer and additional debt could become more expensive and more difficult to sell. The Fiscal Court may also be required to pay additional rentals for fees relating to any letters of credit being used to collateralize the interest rate swaps. Furthermore, if interest rates in the municipal bond market were to decrease and the Fiscal Court wanted to refinance the debt at a lower interest rate, the Fiscal Court would first have to terminate the swap agreement. When interest rate swap agreements are terminated prior to the contract's maturity, one party to the agreement will owe the other party a termination payment that reflects the value of the swap under current market conditions. It is likely that if rates have decreased to the extent that the Fiscal Court would want to refinance the debt, the Fiscal Court would be the party that would have to make a termination payment. The use of the interest rate swap agreement may limit the Fiscal Court's flexibility in managing the lease obligations going forward.

**M. Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2009, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 4,843,253	\$	\$ 270,805	\$ 4,572,448	\$ 177,701
Governmental Activities					
Long-term Liabilities	\$ 4,843,253	\$ 0	\$ 270,805	\$ 4,572,448	\$ 177,701

**Note 5. Interest on Long-term Debt**

Debt Service on the Statement of Activities includes \$204,163 in interest on financing obligations; \$139,951 of this interest was paid by the State to the Kentucky Association of Counties Leasing Trust on behalf of the County on the Courthouse Renovations project.

**Note 6. Employee Retirement System**

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 13.50 percent.

**GALLATIN COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The County's contribution rate for hazardous employees was 29.50 percent.

The County's contribution for the year ended June 30, 2007 was \$170,329, for the year ended June 30, 2008 was \$238,645, and for the year ended June 30, 2009 was \$205,281.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2009, Gallatin County was a member of the Kentucky Association of Counties' All Line Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**



**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,319,100	\$ 1,319,100	\$ 1,360,273	\$ 41,173
In Lieu Tax Payments	118,000	118,000	118,752	752
Excess Fees	2,000	86,000	141,420	55,420
Licenses and Permits	68,000	68,000	71,975	3,975
Intergovernmental Revenue	140,050	140,050	198,889	58,839
Charges for Services	12,000	12,000	13,640	1,640
Miscellaneous	20,100	96,959	143,763	46,804
Interest	13,000	13,000	10,866	(2,134)
Total Revenues	<u>1,692,250</u>	<u>1,853,109</u>	<u>2,059,578</u>	<u>206,469</u>
<b>EXPENDITURES</b>				
General Government	812,484	992,971	781,343	211,628
Protection to Persons and Property	265,306	282,356	188,562	93,794
General Health and Sanitation	72,259	76,346	68,821	7,525
Social Services	49,200	49,300	23,713	25,587
Recreation and Culture	15,000	15,000	14,000	1,000
Debt Service	213,000	211,429	122,558	88,871
Capital Projects	50,000	50,000	42,427	7,573
Administration	730,593	693,987	584,614	109,373
Total Expenditures	<u>2,207,842</u>	<u>2,371,389</u>	<u>1,826,038</u>	<u>545,351</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(515,592)</u>	<u>(518,280)</u>	<u>233,540</u>	<u>751,820</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	156,349	159,037	156,349	(2,688)
Transfers To Other Funds	<u>(378,441)</u>	<u>(378,441)</u>	<u>(210,135)</u>	<u>168,306</u>
Total Other Financing Sources (Uses)	<u>(222,092)</u>	<u>(219,404)</u>	<u>(53,786)</u>	<u>165,618</u>
Net Changes in Fund Balance	(737,684)	(737,684)	179,754	917,438
Fund Balance - Beginning	<u>737,684</u>	<u>737,684</u>	<u>735,764</u>	<u>(1,920)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 915,518</u>	<u>\$ 915,518</u>

**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 633,423	\$ 733,423	\$ 1,034,283	\$ 300,860
Charges for Services	500	500	1,521	1,021
Miscellaneous	58,600	97,108	89,624	(7,484)
Interest	41,000	41,000	23,481	(17,519)
Total Revenues	733,523	872,031	1,148,909	276,878
<b>EXPENDITURES</b>				
Roads	997,000	999,404	617,842	381,562
Debt Service	58,000	83,609	70,720	12,889
Capital Projects	500,000	600,000	530,497	69,503
Administration	78,100	75,696	42,820	32,876
Total Expenditures	1,633,100	1,758,709	1,261,879	496,830
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(899,577)	(886,678)	(112,970)	773,708
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds		9,771	10,000	229
Transfers To Other Funds	(156,349)	(179,019)	(156,349)	22,670
Total Other Financing Sources (Uses)	(156,349)	(169,248)	(146,349)	22,899
Net Changes in Fund Balance	(1,055,926)	(1,055,926)	(259,319)	796,607
Fund Balance - Beginning	1,055,926	1,055,926	1,087,634	31,708
Fund Balance - Ending	\$ 0	\$ 0	\$ 828,315	\$ 828,315

**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information – Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>LGEA FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 150,000	\$ 185,390	\$ 191,656	\$ 6,266
Miscellaneous	100	20,100	31,521	11,421
Interest	100	100	599	499
Total Revenues	150,200	205,590	223,776	18,186
<b>EXPENDITURES</b>				
Recreation and Culture	153,100	215,717	163,202	52,515
Debt Service	63,000	69,284	52,820	16,464
Administration	14,100	10,800	7,695	3,105
Total Expenditures	230,200	295,801	223,717	72,084
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(80,000)	(90,211)	59	90,270
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds		10,211		(10,211)
Total Other Financing Sources (Uses)		10,211		(10,211)
Net Changes in Fund Balance	(80,000)	(80,000)	59	80,059
Fund Balance - Beginning	80,000	80,000	106,071	26,071
Fund Balance - Ending	\$ 0	\$ 0	\$ 106,130	\$ 106,130

**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>AMBULANCE FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 10,256	\$ 10,256	\$ 10,169	\$ (87)
Charges for Services	490,000	490,000	635,789	145,789
Miscellaneous	200	200	322	122
Interest	100	100	244	144
Total Revenues	<u>500,556</u>	<u>500,556</u>	<u>646,524</u>	<u>145,968</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	648,100	658,100	584,458	73,642
Administration	90,100	80,100	63,755	16,345
Total Expenditures	<u>738,200</u>	<u>738,200</u>	<u>648,213</u>	<u>89,987</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(237,644)</u>	<u>(237,644)</u>	<u>(1,689)</u>	<u>235,955</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	157,644	157,644		(157,644)
Total Other Financing Sources (Uses)	<u>157,644</u>	<u>157,644</u>		<u>(157,644)</u>
Net Changes in Fund Balances	(80,000)	(80,000)	(1,689)	78,311
Fund Balances - Beginning	<u>80,000</u>	<u>80,000</u>	<u>89,543</u>	<u>9,543</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 87,854</u>	<u>\$ 87,854</u>



**GALLATIN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**2. General Fund Reconciliation**

Revenues

Intergovernment Revenue - Budgetary Basis	\$ 198,889
Debt Service Payment Paid by AOC	<u>228,870</u>
Intergovernmental Revenue - Modified Cash Basis	<u><u>\$ 427,759</u></u>

Expenditures

Debt Service - Budgetary Basis	\$ 122,558
Debt Service Payment Paid by AOC	<u>228,870</u>
Debt Service - Modified Cash Basis	<u><u>\$ 351,428</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

**GALLATIN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**

**GALLATIN COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**

	<b>Jail Fund</b>	<b>State Grants Fund</b>	<b>Economic Development Fund</b>	<b>911 Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 17,227	\$ 35	\$ 222,262	\$ 14,723
Total Assets	<u>17,227</u>	<u>35</u>	<u>222,262</u>	<u>14,723</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances				180
Unreserved:				
Special Revenue Funds	<u>17,227</u>	<u>35</u>	<u>222,262</u>	<u>14,543</u>
Total Fund Balances	<u>\$ 17,227</u>	<u>\$ 35</u>	<u>\$ 222,262</u>	<u>\$ 14,723</u>

The accompanying notes are an integral part of the financial statements.

**GALLATIN COUNTY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**(Continued)**  
**June 30, 2009**

<b>911 Wireless Fund</b>	<b>Tourism Fund</b>	<b>Total Non-Major Governmental Funds</b>
<u>\$ 74,621</u>	<u>\$ 55,338</u>	<u>\$ 384,206</u>
<u>74,621</u>	<u>55,338</u>	<u>384,206</u>

180

<u>74,621</u>	<u>\$ 55,338</u>	<u>384,026</u>
<u>\$ 74,621</u>	<u>\$ 55,338</u>	<u>\$ 384,206</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**GALLATIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**

**GALLATIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**

	<b>Jail Fund</b>	<b>State Grants Fund</b>	<b>Economic Development Fund</b>	<b>911 Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$	\$	\$ 69,759
Intergovernmental	100,752	122,324		
Miscellaneous	313			
Interest	136		4,012	109
Total Revenues	<u>101,201</u>	<u>122,324</u>	<u>4,012</u>	<u>69,868</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	218,394			175,439
General Health and Sanitation		122,289		
Recreation and Culture				
Administration	14,089			25,236
Total Expenditures	<u>232,483</u>	<u>122,289</u>		<u>200,675</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(131,282)</u>	<u>35</u>	<u>4,012</u>	<u>(130,807)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	135,135			134,500
Transfers to Other Funds				
Total Other Financing Sources (Uses)	<u>135,135</u>			<u>134,500</u>
Net Change in Fund Balances	3,853	35	4,012	3,693
Fund Balances - Beginning	13,374		218,250	11,030
Fund Balances - Ending	<u>\$ 17,227</u>	<u>\$ 35</u>	<u>\$ 222,262</u>	<u>\$ 14,723</u>

The accompanying notes are an integral part of the financial statements.



**GALLATIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>911 Wireless Fund</b>	<b>Tourism Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$
	29,076	98,835
90,639	2,544	316,259
	2,628	2,941
213	214	4,684
90,852	34,462	422,719
20,335		414,168
		122,289
	36,287	36,287
		39,325
20,335	36,287	612,069
70,517	(1,825)	(189,350)
		269,635
(69,500)		(69,500)
(69,500)		200,135
1,017	(1,825)	10,785
73,604	57,163	373,421
\$ 74,621	\$ 55,338	\$ 384,206

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





The Honorable Kenny French, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 19, 2010. Gallatin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gallatin County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gallatin County Fiscal Court's internal control over financial reporting.

Our consideration of internal control financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Gallatin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under Government Auditing Standards.

The Gallatin County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Judge/Executive's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Gallatin County Fiscal Court in the exit conference on February 8, 2010.

This report is intended solely for the information and use of management, the Gallatin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Cotton and Allen, P.S.C.  
Certified Public Accountants and Advisors

February 19, 2010

**GALLATIN COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2009**





**GALLATIN COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2009**

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:**

**2009-01     The County Should Review Its IT Systems And Ensure That Appropriate Safeguards Are In Place To Ensure The Continued Security Of The Fiscal Court's Data**

*Criteria:* A strong IT environment is essential to the maintenance of the electronic data held by the County and to prevent unauthorized access to the County's computer systems.

*Condition:* The County's IT environment is a simple structure. However, the County lacks formal policies and procedures in place that can improve its IT systems, namely:

- The County does not have a written policy that addresses password privacy.
- The County does not have a written computer usage policy.
- The County does not have a written disaster recovery plan or have processes in place to perform periodic testing of the plan.
- The County has not implemented user restrictions within the accounting software.

*Cause:* The simple nature of the structure has led to these items being overlooked.

*Effect or Potential Effect:* Unauthorized access to the County's computers could result in the loss of data, violation of privacy rules and regulations and losses to the County through misappropriation of cash. The irrecoverable loss of data could compromise the County's ability to provide the necessary financial information for reporting to the Fiscal members or the citizenry.

*Recommendation:* We recommend that the County review the report entitled "Information Systems – Best Practices" issued by Crit Luallen on August 4, 2009. The County should have a full IT review performed to ensure that the IT environment is adequately protected.

*County Judge/Executive Kenny French Response:* We have a flashdrive daily backup as well as an offsite backup with J&J Systems in Lexington KY for any disaster recovery if needed. We will develop a policy using Crit Luallen's "Best Practices" as it fits the needs for our office.

**2009-02     The County Should Properly Account For Encumbrances**

*Criteria:* The Department for Local Government requires the County to disclose encumbrances on the face of the Fourth Quarter Financial Report. The "Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal."

*Condition:* The listing of encumbrances provided to auditors did not reconcile to the amounts reported on the face of the Fourth Quarter Financial Report.

*Cause:* The County utilizes accounting software which maintains a purchase order ledger electronically. An outstanding purchase order/encumbrance report can be generated at any time. However, as purchase orders and invoices are paid, the system automatically updates the encumbrance report. At the end of the fiscal year, the encumbrance report was not printed out by the Finance Officer and reconciled to the Fourth Quarter Financial Report.

*Effect or Potential Effect:* The County is not in compliance with Department for Local Government guidelines.

**GALLATIN COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2009**  
**(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2009-02     The County Should Properly Account For Encumbrances (Continued)

*Recommendation:* We recommend that the County maintain a listing of encumbrances which reconcile to the Fourth Quarter Financial Report in the future.

*County Judge/Executive Kenny French Response: This has been corrected effective with January's reconciliations and the 2<sup>nd</sup> Qtr Financial. The Finance Officer is reviewing and utilizing the encumbrance report for properly accounting for all encumbrances. This will be done quarterly.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**GALLATIN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



## Gallatin County Fiscal Court

P.O. Box 144

Warsaw, Kentucky 41095

859.567.5691

[www.gallatincountyky.com](http://www.gallatincountyky.com)

Judge / Executive

*Kenny R. French*

Magistrates

*Eric Moore*

*Dudley Gullion*

County Attorney

*John G. Wright*

Magistrates

*Jeff Wallace*

*Joel Shinkle*

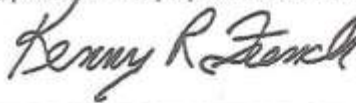
### CERTIFICATION OF COMPLIANCE

#### LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

#### GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Gallatin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Kenny French  
County Judge/Executive



Lesa Bullard  
County Treasurer

